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September 25, 1997

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

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SEP 25 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 95-116, Number Portability

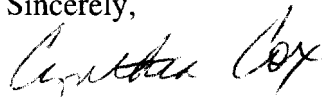
Dear Mr. Caton:

Yesterday, Mr. Ernest Bush, Mr. William Shaughnessy and the undersigned, met with Mr. Tom Boasberg in Commissioner Hundt's office, Mr. Paul Gallant in Commissioner Quello's office and Ms. Kathleen Franco in Commissioner Chong's office regarding cost recovery for number portability. The attachment served as the basis for our discussion.

Two copies of this notice are filed in accordance with Section 1.1206(a)(1) of the Commission's rules.

Please call me with any questions on this matter.

Sincerely,


Cynthia Cox

cc: Tom Boasberg (w/o attachment)
Paul Gallant (w/o attachment)
Kathleen Franco (w/o attachment)

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Cost Recovery for Local Number Portability

BellSouth

FCC's Role in LNP Cost Recovery

- **The Commission has an unambiguous Congressional mandate to ensure that the costs of LNP are borne by all carriers on a competitively neutral basis.**
 - *The cost of establishing telecommunications numbering administration arrangements and number portability shall be borne by all Telecommunications carriers on a competitively neutral basis as determined by the Commission.” (Section 251(e)(2) of 1996 Act).*
- **The Commission may clearly prescribe federal number portability cost recovery guidelines to states to the extent they do not intrude upon a state's intrastate rate making authority.**
 - *Iowa Utilities Board states that no provision of the Act unambiguously requires state rates to comply with FCC prescribed requirements*
 - *Section 251(e)(2)(Costs) is not explicitly cited in either Iowa or California by the Eighth Circuit Court of Appeals; 251(b)(2) is described as “non-pricing,” states still have role in 251(e) per California decision.*

FCC's Principles of Competitive Neutrality

- Any cost recovery mechanism “should not have a disparate effect on the ability of competing service providers to earn normal returns on their investment.” (CC Docket 95-116, *First Report & Order*, Para 135)
- A “competitively neutral” cost recovery mechanism should not give one service provider an appreciable, incremental cost advantage over another service provider, when competing for specific subscriber.” (CC Docket 95-116, *First Report & Order*, Para 132)

A cost recovery solution which requires each carrier to bear their own costs is not competitively neutral unless all carriers have the same flexibility to recover costs.

Long Term Number Portability Facts & Principles

- LNP is a new call processing paradigm which results in a new architecture for call completion that requires:
 - Capacity requirements (e.g. switch processors, SS7 links, LNP SCPs)
 - Intelligence to complete call (e.g. switch software, AIN software development)
 - Ability to exchange data between networks (e.g. Number Portability Administration Centers (NPACs), SMS, provisioning & repair gateway)
 - Fundamental changes to existing administrative/support systems (e.g. Billing, provisioning, ordering and maintenance)
- Costs of installing & administering regional databases / NPACs (Type I) ***plus*** each carrier's direct costs (Type II) are the total costs to implement LNP.
 - LNP requires both Type I & Type II costs to be successful.
 - There is no reason to distinguish Type I costs and Type II costs for cost recovery purposes.
- FCC recognizes that number portability promotes competition between telecommunication service providers which will benefit all uses of telecommunication services. (*para 30. First Report & Order in CC Docket 95-116*)
- "N-1" carriers are responsible for ensuring that databases are queried, as necessary. (*para 73, Second Report & Order in CC Docket 95-116*)

Long Term Number Portability Facts & Principles

- Bulk of the costs to implement number portability falls on the ILEC community.
 - Most costs associated with number portability are Type II costs--fundamental changes to embedded network must be made to make number portability work;
 - The longer the FCC waits to make a cost recovery decision, the more the carriers who are bearing the bulk of the cost are penalized;
 - Only ILEC community has submitted detailed information on what costs will be incurred and how costs will be recorded;

BellSouth's Initial LNP Cost Recovery Position

- Initially, BellSouth supported SBC's original cost recovery proposal for LNP:
 - Allocation of costs based on "elemental access lines" (EAL)
 - National fund based on mandatory, temporary, uniform "EAL" surcharge
- Alternatively, BellSouth supports a cost recovery mechanism similar to FCC's recommendation on Universal Service.
 - Type I & Type II costs reported to a national administrator and amortized over a 3-5 year period;
 - The nationwide costs for LNP split into two components: an interstate portion and an intrastate portion--similar to Universal Service;

BellSouth's Alternative LNP Cost Recovery Position

- Type I & Type II costs reported to a national administrator and amortized over a 3-5 year period;
- The nationwide costs for LNP split into two components: an interstate portion and an intrastate portion--similar to Universal Service;
- Carriers funding to the interstate costs based on their percentage of nationwide interstate revenues.
- Carriers funding to the intrastate costs based on their percentage of nationwide intrastate retail revenues.
- Interstate assessment would be given exogenous treatment and recovered through charges to carriers in the interstate jurisdiction.
- The intrastate portion of costs would be recovered from the state jurisdiction;
- After the amortization period has expired, any LNP charges would be eliminated.
- Carriers will be allowed to assess other carriers a per query charge for default queries.

FCC Guidelines to States on LNP Cost Recovery

- FCC should clearly define “competitively neutral” and indicate that all telecommunications carriers should participate in LNP cost recovery;
- FCC should clearly specify which costs are eligible to be included as Type I & Type II costs;
- States should be given adequate latitude to develop the precise cost recovery mechanisms for carriers under their jurisdiction;
 - Cost recovery for CMRS carriers should remain at interstate level;
- FCC should specify that intrastate LNP costs qualify for exogenous treatment;

FCC Guidelines to States on LNP Cost Recovery (Cont):

- FCC should specify that for states with Phase I & Phase II MSAs (*For example, in BellSouth's region: Florida & Georgia*), a cost recovery mechanism should be in place by 6/30/98.
 - Remaining states should have cost recovery mechanism in place prior to the start date of the quarter when state's initial MSA is scheduled for LNP.
- FCC should clearly specify that LNP cost recovery should be viewed as temporary and fully recoverable over a 3-5 year time period.

Summary

- Cost recovery solution must be competitively neutral;
 - Each carrier bearing its own costs is not competitively neutral;
- Cost recovery solution must include Type I & Type II costs;
- National fund based on mandatory, temporary, uniform “EAL” surcharge still most competitively neutral;
- Cost recovery based on Universal Service Model is also competitively neutral:
 - FCC must give guidelines to states for cost recovery of intrastate portion;